

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	76.50	2.00	0.00	78.50	2.00	0.00	78.50	78.50
Personal Services	3,422,314	595,933	0	4,018,247	608,353	0	4,030,667	8,048,914
Operating Expenses	2,659,003	2,637,833	0	5,296,836	2,627,736	0	5,286,739	10,583,575
Grants	573,215	0	250,958	824,173	0	352,399	925,614	1,749,787
Benefits & Claims	472,478	5,148,534	1,000,000	6,621,012	5,151,722	1,000,000	6,624,200	13,245,212
Total Costs	\$7,127,010	\$8,382,300	\$1,250,958	\$16,760,268	\$8,387,811	\$1,352,399	\$16,867,220	\$33,627,488
State/Other Special Proprietary	7,127,010 0	8,382,300 0	1,250,958 0	16,760,268 0	8,387,811 0	1,352,399 0	16,867,220 0	33,627,488 0
Total Funds	\$7,127,010	\$8,382,300	\$1,250,958	\$16,760,268	\$8,387,811	\$1,352,399	\$16,867,220	\$33,627,488

Agency Description

The Office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and Securities and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities dealers in the state. The auditor also adopts rules and administers reform for the insurance and securities industries operating in the state. The auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board.

The statutory duties of the State Auditor are administered from three divisions: Central Management, Insurance, and Securities. The State Auditor's Office (SAO) is also a conduit for two "pass through" programs representing about \$30 million per year: the Forest Reserve Shared Revenue, and the Fire and Police Retirement Program. The federally funded Forest Reserve Shared Revenue (17-3-211, MCA) generated \$12.8 million in FY 2006 for counties in which the forest reserve is situated. It is disbursed through a state special revenue account in the same name. The Fire and Police Retirements Program funds are from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA). Funding for this program is disbursed from the general fund. In FY 2006, \$17.8 million went to the Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, the Volunteer Fighters' Compensation Act, local fire department relief associations, municipalities with police department trust funds, and local police pension funds for supplemental benefits.

Agency Highlights

State Auditor's Office Major Budget Highlights	
◆	Total funding increases \$16,750,987 over the doubled FY 2006 base and includes: <ul style="list-style-type: none"> • Annualization of Insure Montana program costs of \$14,869,625 • Statewide present law adjustments for personal services of \$1,204,286 • \$447,007 for costs associated with insurance examinations • A request for FTE and operating expenses for the Insure Montana program • A request for additional FTE and operating expenses to archive records into a data base

State Auditor's Office Major LFD Issues	
◆	The requested appropriations for the Insure Montana program are above the amounts necessary based on the number of anticipated program participants
◆	There is a growing fund balance related to insurance fees

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy.

LFD ISSUE SAO Does Not Have Specific Quantifiable Objectives
State agencies define their mission in statements that define the overall direction of the agency and clarify the agency's purpose and meaning. The mission is then broken into goals, specific action to be accomplished to meet the agency's mission. Goals define what the agency is trying to accomplish. Objectives, sometimes referred to as performance measures, are the segments of the goals which show how the agency will accomplish the goals. They should be specific, time-bound, and measurable to articulate the who, when, and how of the agency's plans for accomplishing the goals. This allows the legislature to ensure an agency is accountable for the resources it has been appropriated. The State Auditor's Office has prepared agency-wide goals but, in spite of multiple requests by the Legislative Finance Committee, has not yet developed objectives for these goals.

As part of its appropriation deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes for the 2007 biennium
- Goals, objectives and their correlation to the 2009 biennium budget request for the SAO and its three programs

The Insurance Division regulates the insurance industry in Montana and the Insure Montana program, which provides assistance in purchasing health insurance for small businesses. The annual budget request for SAO more than doubles in part due to present law adjustments for the Insure Montana program of about \$7.4 million annually. The Insure Montana program was begun in FY 2006, first insuring businesses in January, half-way through the year. The program will not become fully operational until later in FY 2007. In addition, the present law adjustment increases allow for the annualization of the program costs to the full amount anticipated in the FY 2009 biennium. The executive proposes increasing the allocation to this program by \$2 million over the biennium above the annualized increase of \$7.4 million.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2009 Biennium Executive Budget			
Agency Program	State Spec.	Grand Total	Total %
01 Central Management	\$ 1,283,532	\$ 1,283,532	3.82%
03 Insurance	30,721,700	30,721,700	91.36%
04 Securities	1,622,256	1,622,256	4.82%
Grand Total	<u>\$ 33,627,488</u>	<u>\$ 33,627,488</u>	100.00%

The State Auditor's Office receives no general fund. It is funded from state special revenue generated by insurance fees and taxes levied on the insurance industry of the sale of insurance policies in Montana, and security fees charged to the securities industry for the registration of securities and agents or for the notices of a federal filing of a federally secured security. Resident and non-resident companies or individuals conducting insurance or security business in Montana are subject to fees. Insurance fees and taxes are deposited into a special revenue account under the same name. Fees

generated with security licenses and permits are deposited into a special revenue security fee account. In accordance with 10-1-115, MCA, unspent collections from this account are deposited to the general fund. Deposits to the general fund were approximately \$2.2 million in FY 2006. Consequently, the amount of these funds appropriated to and spent by the office has a direct bearing on general fund.

Last session the legislature added \$12,746,706 to state special revenue from taxes on cigarettes and other tobacco products to be used in the small business insurance pool and tax credit programs. Finally, there is \$1.7 million in the 2009 biennium for the insurance premium assistance program called Montana Comprehensive Health Association, which provides assistance for uninsured, unhealthy, low-income Montanans. Both of these programs are administered by the Insurance Division.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	78.50	0.00	78.50	78.50	0.00	78.50	76.50	78.50
Personal Services	4,018,247	0	4,018,247	4,030,667	0	4,030,667	7,248,522	8,048,914
Operating Expenses	5,296,836	0	5,296,836	5,286,739	0	5,286,739	3,885,891	10,583,575
Grants	573,215	250,958	824,173	573,215	352,399	925,614	1,146,430	1,749,787
Benefits & Claims	5,621,012	1,000,000	6,621,012	5,624,200	1,000,000	6,624,200	10,160,848	13,245,212
Total Costs	\$15,509,310	\$1,250,958	\$16,760,268	\$15,514,821	\$1,352,399	\$16,867,220	\$22,441,691	\$33,627,488
State/Other Special	15,509,310	1,250,958	16,760,268	15,514,821	1,352,399	16,867,220	22,441,691	33,627,488
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$15,509,310	\$1,250,958	\$16,760,268	\$15,514,821	\$1,352,399	\$16,867,220	\$22,441,691	\$33,627,488

The 2009 biennium budget increases by \$11 million over the 2007 biennium budget due to present law adjustments, mainly associated with the Insure Montana program, and new proposals to increase the Insure Montana appropriation by \$1 million annually and increase Montana Comprehensive Health Association (MCHA) by a total of \$600,000 over the biennium. These increases are supported entirely with state special revenue generated from taxes on tobacco products, taxes and fees for entities conducting insurance and security business in Montana, and tobacco settlement funds.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - MCHA Additional Funding										
03	0.00	0	250,958	0	250,958	0.00	0	352,399	0	352,399
DP 102 - Insure Montana Additional Funding										
03	0.00	0	1,000,000	0	1,000,000	0.00	0	1,000,000	0	1,000,000
Total	0.00	\$0	\$1,250,958	\$0	\$1,250,958	0.00	\$0	\$1,352,399	\$0	\$1,352,399

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	445,440	107,787	0	553,227	109,541	0	554,981	1,108,208
Operating Expenses	79,957	10,192	0	90,149	5,218	0	85,175	175,324
Total Costs	\$525,397	\$117,979	\$0	\$643,376	\$114,759	\$0	\$640,156	\$1,283,532
State/Other Special	525,397	117,979	0	643,376	114,759	0	640,156	1,283,532
Total Funds	\$525,397	\$117,979	\$0	\$643,376	\$114,759	\$0	\$640,156	\$1,283,532

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the State Auditor's Office. The division also provides support to the auditor in fulfilling the duties as a member of the state land and hail insurance boards.

Program Highlights

Central Management Division Major Budget Highlights	
◆	Annual increases over the base year are due to present law adjustments and a decision package to increase rent by 2 percent.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table Central Management						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 525,397	100.0%	\$ 643,376	100.0%	\$ 640,156	100.0%
02235 Insurance Fee Account	505,491	96.2%	605,169	94.1%	601,747	94.0%
02283 Securities Fee Account	19,906	3.8%	38,207	5.9%	38,409	6.0%
Grand Total	<u>\$ 525,397</u>	<u>100.0%</u>	<u>\$ 643,376</u>	<u>100.0%</u>	<u>\$ 640,156</u>	<u>100.0%</u>

This program is funded with state special revenue generated by fees and taxes for entities conducting insurance or security business in Montana as identified and defined in 33-2-705 through 708, MCA.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----					-----Fiscal 2009-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				126,944					128,766	
Vacancy Savings				(19,157)					(19,225)	
Inflation/Deflation				509					554	
Fixed Costs				8,614					3,045	
Total Statewide Present Law Adjustments				\$116,910					\$113,140	
DP 1 - Annual Rent Increase	0.00	0	1,069	0	1,069	0.00	0	1,619	0	1,619
Total Other Present Law Adjustments	0.00	\$0	\$1,069	\$0	\$1,069	0.00	\$0	\$1,619	\$0	\$1,619
Grand Total All Present Law Adjustments				\$117,979					\$114,759	

**LFD
COMMENT**

The annual statewide present law adjustment for personal services is a 24 percent increase over two years above the FY 2006 personal services base. About \$33,500 of the adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature. The remainder is attributable to the combination of restored funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan. The program had a 19.7 percent vacancy in authorized FTE hours during the base year. Had no vacancies existed, base expenditures would have been about \$90,000 higher.

DP 1 - Annual Rent Increase - The State of Montana entered into a lease contract with Montana Children's Home and Hospital for office space for the State Auditor's Office. This is a 10 year lease starting on January 15, 2000. Per the contract, the annual rate escalates 2 percent per year. This request is for the 2 percent increase based upon FY 2006 rates. Rent for FY 2006 was \$26,168.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	53.50	2.00	0.00	55.50	2.00	0.00	55.50	55.50
Personal Services	2,455,413	381,666	0	2,837,079	390,981	0	2,846,394	5,683,473
Operating Expenses	2,466,305	2,555,627	0	5,021,932	2,554,991	0	5,021,296	10,043,228
Grants	573,215	0	250,958	824,173	0	352,399	925,614	1,749,787
Benefits & Claims	472,478	5,148,534	1,000,000	6,621,012	5,151,722	1,000,000	6,624,200	13,245,212
Total Costs	\$5,967,411	\$8,085,827	\$1,250,958	\$15,304,196	\$8,097,694	\$1,352,399	\$15,417,504	\$30,721,700
State/Other Special	5,967,411	8,085,827	1,250,958	15,304,196	8,097,694	1,352,399	15,417,504	30,721,700
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$5,967,411	\$8,085,827	\$1,250,958	\$15,304,196	\$8,097,694	\$1,352,399	\$15,417,504	\$30,721,700

Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. The Rates and Forms Bureau is responsible for reviewing form filings and rate filings to ensure compliance with the applicable insurance code. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Investigations Bureau investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution. Insure Montana provides assistance in purchasing health insurance for small business employers and their employees, as well as tax credits for small businesses already providing health insurance.

Program Highlights

Insurance Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The proposed budget would add \$18.7 million or 155 percent over the doubled FY 2006 base: Of this total 16.8 million is related to either increased costs or additional funding for the Insure Montana program ◆ The executive also: <ul style="list-style-type: none"> • Adds funds for insurance examinations • Provides FTE for Insure Montana and data archiving
Insurance Division Major LFD Issues
<ul style="list-style-type: none"> ◆ The requested appropriations for Insure Montana program are above the amounts necessary based on the number of anticipated program participants ◆ There is a growing fund balance related to insurance fees ◆ Appropriations for contract examinations are above the amounts needed for the program

2007 Biennium New Initiative Update

The 2007 Legislature appropriated \$12.75 million in state special revenue funds to create a small business health insurance pool for employers with 2 to 9 employees, and to provide employer premium incentives, employee premium assistance, and tax credits to small businesses. The State Auditor's Office hired 3.00 FTE, insured 408 businesses as of October 2006, and issued 634 businesses certificates to receive tax credits for providing health insurance on their 2006 tax returns.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table						
Insurance						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 5,967,411	100.0%	\$ 15,304,196	100.0%	\$ 15,417,504	100.0%
02235 Insurance Fee Account	3,015,397	50.5%	3,604,232	23.6%	3,616,173	23.5%
02769 Health Insurance Premium Assistance	615,450	10.3%	6,525,515	42.6%	6,525,431	42.3%
02770 Health Insurance Tax Credits	1,763,349	29.5%	4,350,276	28.4%	4,350,286	28.2%
02789 6901-Chip/Mcha Tobacco Sett Fd	573,215	9.6%	824,173	5.4%	925,614	6.0%
Grand Total	<u>\$ 5,967,411</u>	<u>100.0%</u>	<u>\$ 15,304,196</u>	<u>100.0%</u>	<u>\$ 15,417,504</u>	<u>100.0%</u>

This program is funded through state special revenue generated from a percentage charge against every insurance policy sold in the state, as well as from charges for insurance company examinations and fees paid by individual agents. The program also receives funding from taxation on tobacco products under the Health and Medicaid Initiatives account for the Insure Montana program and tobacco settlement funds for the Montana Comprehensive Health Association.

**LFD
ISSUE****Fund Balance for Insurance Fund Growing**

The fund balance for the state special revenue funded by insurance fees is increasing because revenues are significantly greater than the expenditures for the program. Under 33-2-708, MCA insurers pay to the State Auditor's Office an annual licensing fee of \$1,900. The license authorizes the insurer to conduct business in Montana. Additional fees are charged for nonresidents, other types of insurance, reinstatements, original applications, and consultant's licenses. Fees are set in statute and must be changed through legislation. The following table shows the revenues, expenditures and fund balance for the state special revenue insurance fee account.

State Auditor's Office							
Insurance License Fee							
Fund Balance	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Beginning Fund Balance	\$339,645	\$1,170,786	\$1,951,057	\$2,051,261	\$2,892,996	\$4,236,496	\$4,881,066
Revenues	3,283,994	3,656,964	3,794,726	3,972,207	4,534,326	3,988,131	4,819,207
Expenditures	2,452,853	2,876,693	3,694,522	3,130,472	3,190,827	3,343,561	3,521,290
Ending Fund Balance	\$1,170,786	\$1,951,057	\$2,051,261	\$2,892,996	\$4,236,496	\$4,881,066	\$6,178,982

As shown above, at the beginning of FY 2000 the fund balance was \$339,645 while, at the end of FY 2006 the fund balance was \$6,180,134, a 1,720 percent increase over the last six years. The average compounded growth rate for the revenues has been 7 percent over the period while the average compounded growth rate for expenditures was 6 percent. A reduction of 1 percent of the license fee would result in an annual license fee of \$1,880. However, if the legislature wishes to statutorily lower the fees a more detailed examination of the anticipated revenues and expenditures would need to be completed. If the legislature wishes to maintain the license fees at their current levels, the fund balance in the insurance fee account will continue to grow as long as expenditure levels continue to be significantly below the revenues.

**LFD
ISSUE
(CONT)**

Under this scenario the excess fund balance would be available. Currently the securities fee account used by the State Auditor's Office to support the securities program has excess revenues above the expenditures needed to operate the program. The excess is transferred into the general fund at the end of each year.

The legislature may wish to consider:

- lowering the fees charged for insurer licenses
- depositing excess revenues into the general fund at the end of each fiscal year as is done for the securities state special revenue

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				417,139					426,765	
Vacancy Savings				(114,901)					(115,288)	
Inflation/Deflation				8,943					11,341	
Fixed Costs				16,759					(5,207)	
Total Statewide Present Law Adjustments				\$327,940					\$317,611	
DP 1 - Annual Rent Increase	0.00	0	6,175	0	6,175	0.00	0	9,355	0	9,355
DP 2 - Insure Montana FTE	1.00	0	54,462	0	54,462	1.00	0	51,098	0	51,098
DP 3 - Additional Office Space	0.00	0	8,852	0	8,852	0.00	0	9,028	0	9,028
DP 4 - Licensing FTE	1.00	0	42,844	0	42,844	1.00	0	39,525	0	39,525
DP 5 - Insure Montana Annualization	0.00	0	7,433,218	0	7,433,218	0.00	0	7,436,406	0	7,436,406
DP 6 - Contract Examinations (RST)	0.00	0	212,336	0	212,336	0.00	0	234,671	0	234,671
Total Other Present Law Adjustments										
	2.00	\$0	\$7,757,887	\$0	\$7,757,887	2.00	\$0	\$7,780,083	\$0	\$7,780,083
Grand Total All Present Law Adjustments				\$8,085,827					\$8,097,694	

DP 1 - Annual Rent Increase - The State of Montana entered into a lease contract with Montana Children's Home and Hospital for office space for the State Auditor's Office. This is a 10 year lease starting on January 15, 2000. Per the contract, the annual rate escalates at 2 percent per year. This request is for the 2 percent increase based upon FY 2006 rates. Rent for FY 2006 was \$150,953.

DP 2 - Insure Montana FTE - The Insure Montana program's workload is higher than initially anticipated. Another FTE would work with participating employers in assisting them with the application process for health insurance and work in developing other participating employer benefits. This position would also be responsible for researching and applying for grants, reinsurance concepts, and plan design option.

**LFD
ISSUE****Work Load Should Go Down**

Insure Montana began processing new applications for the program in January of 2006. Enrolling first time participants in the program is very time consuming and did result in higher than anticipated workload. It is anticipated that the program will no longer have significant new businesses enrolling after April 2007. Workload should decrease after the majority of new businesses enroll in the program the first time, reducing the need for additional staff.

DP 3 - Additional Office Space - The Insure Montana Program has 3.00 FTE and is requesting an additional 1.00 FTE. Currently staff is housed with other State Auditor staff. This additional office space will house Insure Montana staff in one central location. The new space has 731 square feet at a cost of \$12.11 per square foot in FY 2008 and \$12.35 per square foot in FY 2009.

DP 4 - Licensing FTE - The Insurance Department is requesting 1.00 FTE to archive paper records in an electronic format.

The Licensing and Rates and Forms Bureaus have been using volunteers to scan archived and current records into a data base. The volunteers cannot work more than 90 days when they are available because of restrictions on volunteer activities. For the past 18 months the agency has relied on several temporary employees when budget allows. The rotating staff lead to errors in the retention of our licensing and rates and forms records.

DP 5 - Insure Montana Annualization - The Executive recommends \$7,433,219 in FY 2008 and \$7,436,406 in FY 2009 of state special revenue (I-149 revenue) to bring the funding of this program to the Fiscal Year 2007 appropriated funding level.

This request would sustain the funding for the Insure Montana Program implemented with the passage of HB667 during the 2005 legislature. The State Auditor's Office is requesting \$14,865,669 for the FY 2009 biennium to bring the funding of this program to the FY 2007 appropriated funding level.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Research done by the University of Montana shows that one in five Montanans does not have health insurance. Fifty-three percent of Montana's uninsured population works full time for small businesses. Montana is a small business state, with 81 percent of businesses employing fewer than 10 people. Many of these small businesses can't afford to provide insurance, in part because they don't have enough employees to seek competitive rates. When surveyed 80 percent said they would provide insurance to their employees, if it was affordable.

Goals: The program has three goals.

- Provide tax credits to small businesses that currently offer their employees health insurance.
- Establish a purchasing pool through which small businesses can more competitively bid for health care coverage.
- Provide premium assistance to the owners and employees of small businesses participating in the purchasing pool.

Performance Criteria: Maintain at least 95% budget expended and maximum coverage each year program is in operation

- Maintain maximum capacity of businesses covered by Purchasing Pool each year program is in operation.
- Maintain threshold of 630 businesses covered, or maximum capacity, by Tax Credit Program each year program is in operation.
-

Milestones: What are key activities, and when will they be completed?

- Renewal of Purchasing Pool coverage contract (October 2006 to Jan 2007).
- Transfer of tax credit encumbered funds to Department of Revenue for distribution to businesses (January 2007).
- Expend 95 percent of budget with maximum coverage (April 2007).
- Renew Purchasing Pool coverage at similar levels and price (December 2006).
-

FTE: Three FTEs administer this program. A Purchasing Pool Program Specialist, Tax Credit Program Specialist, and a Program Manager

Funding:

- Insure Montana funding comes from state special revenue health and Medicaid initiatives fund generated by tobacco taxes.
-

Obstacles:

- Businesses take longer than anticipated to fill out and return coverage applications for the Purchasing Pool (60-90 days versus the expected 30 days).
- Information sharing with the Department of Administration and Department of Revenue must be carefully coordinated to ensure program quality and efficiency.
- Low rates and good coverage must be maintained in a volatile health insurance market.

Risk: Loss of coverage for individuals insured under this program would be detrimental as the unpaid costs of the health care uninsured individuals receive are absorbed by others as losses on unpaid costs are recovered through prices increases.

**LFD
ISSUE**

Performance Criteria are not Time Framed

There are two issues relating to the performance management criteria provided above:

- Performance criteria do not include specific measurements or time periods in which they would be accomplished.
- The milestones are all for the 2007 biennium, and not for the 2009 biennium as required.

**LFD
ISSUE**

Projections of Participants Do Not Indicate this Level of Funding is Necessary

The 2009 biennium appropriations for the Insure Montana program are based upon the estimated cost of the program made in the 2007 biennium prior to the start of the program. Insure Montana began insuring businesses with 2 to 5 employees in January 2006. As of August 2006 all businesses with 2 to 5 employees who applied for coverage were enrolled and the process was opened to businesses with 2 to 9 employees. Of the 812 original applications, 347 or 43 percent of the applicants either declined enrollment, were not eligible, or did not respond to mailed enrollment packets. As of October 2006, 578 additional businesses with 5 to 9 employees have requested enrollment packets.

The State Auditor's Office does not anticipate any significant additional applications for the program after these businesses complete the enrollment process. If the take up rate on the insurance remains at 43 percent, 248 additional businesses may enroll in the program for a total of 656 businesses. The current average number of employees enrolled per business is five. Even if the average increases to 7 employees per business, at the current average amount of assistance and incentives the program will only expend \$10,119,299 in the next biennium, \$1,678,703 less than the appropriation. Premium rates may increase during the period, however, even a 10 percent increase over the biennium will only expend an additional \$1,011,930 leaving \$666,774 which may not be needed for the program.

The legislature may wish to consider reducing the FY 2009 biennial appropriation for the program based upon the number of businesses enrolled, the average number of employees insured per business, the average employer incentive, and the average employee assistance amount.

DP 6 - Contract Examinations (RST) - The executive recommends state special revenue for insurance contract examinations conducted on authorized insurers licensed in Montana at least once every 5 years. The budget is based upon the examination schedule for the biennium. Insurance companies reimburse the SAO for the examination expenses.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - MCHA Additional Funding										
03	0.00	0	250,958	0	250,958	0.00	0	352,399	0	352,399
DP 102 - Insure Montana Additional Funding										
03	0.00	0	1,000,000	0	1,000,000	0.00	0	1,000,000	0	1,000,000
Total	0.00	\$0	\$1,250,958	\$0	\$1,250,958	0.00	\$0	\$1,352,399	\$0	\$1,352,399

DP 101 - MCHA Additional Funding - The executive recommends additional funding for the Montana Comprehensive Health Association (MCHA) of \$250,958 in FY 2008 and \$352,399 in FY 2009 in state special revenue. MCHA provides health insurance to low-income Montanans deemed uninsurable due to medical conditions. This funding is derived from the state tobacco settlement payment distribution.

**LFD
ISSUE**

Montana Comprehensive Health Association (MCHA) provides insurance to Montanans denied insurance due to major illnesses. Insurance is usually denied because of a preexisting health condition or significant policy exclusions. The program provides three options for coverage which vary as to the amount of the deductible and co-payments paid by the insurers.

It also provides premium assistance for low-income Montanans who meet the program criteria. Premium assistance is provided through federal or state revenues allocated to the programs. Enrollment in the premium assistance program increased as funding allowed but had to be capped in May 2004 because federal funds for the program were exhausted. In FY 2006 the program had 179 participants enrolled in the premium assistance program. Due to the federal grant reductions the program did not solicit additional program participants in FY 2006.

Premium costs for the program range from \$109 to \$1,054 a month in FY 2007 depending on the age of the participant and the amount of the deductible chosen in the plan options. For example, if you are over 65, as 20 percent of the participants are, and choose the plan with the lowest deductible of \$1,000 annually, your premium would be \$1,054 a month. If you qualify for premium assistance the premium is \$550 a month. Federal funding for the program has fluctuated over the last five years, reducing the amount of assistance provided to participants. Premium assistance amounts declined from 55 percent in FY 2004 to 45 percent in FY 2006. State special revenue fund premium assistance averaged \$266 per month, per participant.

In FY 2004, due to a voter initiative, 17 percent of the tobacco settlement revenues were deposited into a state special revenue account to partially fund both the Children's Health Insurance Program (CHIP) and MCHA. Funds which are not appropriated to these programs are reverted into the tobacco settlement trust fund at the end of the year. The 2005 Legislature allocated 15 percent to MCHA and 85 percent to CHIP. For issues relating to inability to fill CHIP slots see Volume 3, Section B, Health Resources Division, of the 2009 Budget Analysis.

The executive proposes increasing the appropriation to MCHA by \$250,000 in FY 2008 and \$350,000 in FY 2009. Using FY 2007 average premium costs, an additional 78 participants in FY 2008 and 109 in FY 2009 could be served by the program. However, premium costs, especially for this high risk group, continue to increase so the actual number of additional participants would be less. If the executive is proposing restoring the premium assistance amount to 55 percent, the proposal would allow the program to serve an additional 31 participants FY 2008 and 57 participants in FY 2009. At the time the executive budget was released, neither the executive nor the SAO had calculated how the additional funding would be spent.

**LFD
ISSUE (CONT.)**

Tobacco settlement fund revenues increase approximately \$3.59 million over the FY 2009 biennium. Maintaining the allocation of funds determined by the previous legislature would increase the allocation an additional \$238,500 over the biennium. Using the 2007 average premium assistance amount, this would allow for increased premium assistance amounts to 55 percent and an increased number of participants of 92 in FY 2008 and 118 in FY 2009.

The legislature may wish to consider:

- Increasing the funds provided to MCHA by the percentage allocation originally determined by the legislature to offset higher premium costs and/or increase the number of participants in the program
- Requesting SAO provide a plan for allocating the additional funds including the number of additional participants and any increases in premium assistance

DP 102 - Insure Montana Additional Funding - The executive proposes to increase funding for the Insure Montana program by \$1,000,000 state special revenue each year of the biennium. In accordance with 33-22-2008(2), MCA, the funding is split 60 percent for premium assistance and employer incentives and 40 percent for tax credits.

**LFD
ISSUE**

As discussed above in the present law section for decision package 5, under existing statutes the program may not have sufficient participants for this level of additional appropriations.

The SAO has requested a bill which increases the number of employees a business may have from 2-9 employees to 2-15 employees. The legislature may wish to make any appropriations of additional funds contingent on passage and approval of legislation expanding the potential qualified employees.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	13.00	0.00	0.00	13.00	0.00	0.00	13.00	13.00
Personal Services	521,461	106,480	0	627,941	107,831	0	629,292	1,257,233
Operating Expenses	112,741	72,014	0	184,755	67,527	0	180,268	365,023
Total Costs	\$634,202	\$178,494	\$0	\$812,696	\$175,358	\$0	\$809,560	\$1,622,256
State/Other Special	634,202	178,494	0	812,696	175,358	0	809,560	1,622,256
Total Funds	\$634,202	\$178,494	\$0	\$812,696	\$175,358	\$0	\$809,560	\$1,622,256

Program Description

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and, in particular, for the registration of securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives. The division also is responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets of under \$25 million. The Investigations Bureau investigates securities code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Highlights

Securities Division Major Budget Highlights	
◆	Total funding increases over base year expenditures by 19 percent are due to: <ul style="list-style-type: none"> • Statewide present law adjustments • A decision package to increase rent • Increased funding for costs associated with security contract examinations

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table						
Securities						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 634,202	100.0%	\$ 812,696	100.0%	\$ 809,560	100.0%
02283 Securities Fee Account	634,202	100.0%	812,696	100.0%	809,560	100.0%
Grand Total	<u>\$ 634,202</u>	<u>100.0%</u>	<u>\$ 812,696</u>	<u>100.0%</u>	<u>\$ 809,560</u>	<u>100.0%</u>

The Securities Program is funded with state special revenue from the securities fee account, which receives its revenue from securities portfolio registration fees charged to investment advisors and investment companies, as well as from security licenses and permits. In accordance with 30-1-115, MCA, unspent collections from security licenses and permits are deposited to the general fund. Deposits to the general fund were approximately \$2.2 million in FY 2006. Therefore, appropriations to the program directly impact the general fund.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
-----Fiscal 2008-----						-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services					132,644					134,052	
Vacancy Savings					(26,164)					(26,221)	
Inflation/Deflation					688					800	
Fixed Costs					6,708					875	
Total Statewide Present Law Adjustments					\$113,876						\$109,506
DP 1 - Annual Rent Increase											
	0.00	0	1,425	0	1,425	0.00	0	2,159	0	2,159	
DP 2 - Contract Examinations											
	0.00	0	63,193	0	63,193	0.00	0	63,693	0	63,693	
Total Other Present Law Adjustments											
	0.00	\$0	\$64,618	\$0	\$64,618	0.00	\$0	\$65,852	\$0	\$65,852	
Grand Total All Present Law Adjustments					\$178,494						\$175,358

**LFD
COMMENT**

The annual statewide present law adjustment for personal services is a 25 percent increase over the FY 2006 personal services base amount. About \$33,000 of the adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature. The remainder is attributable to the combination of restored funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan, and additional costs associated with employee benefits. The program had a 12.7 percent vacancy rate in authorized FTE hours during the base year. Had no vacancies existed, base expenditures would have been about \$76,000 higher.

DP 1 - Annual Rent Increase - The State of Montana entered into a lease contract with Montana Children's Home and Hospital for office space for the State Auditor's Office. This is a 10 year lease starting on January 15, 2000. Per the contract, the annual rate shall escalate at 2 percent per year. This request is for the 2 percent increase based upon FY 2006 rates. Rent for FY 2006 was \$36,308.

DP 2 - Contract Examinations - Currently, Securities has approximately 1,350 broker-dealer firms and 159 state registered investment advisory firms transacting business with Montana investors through over 56,000 salespeople and advisory representatives. Securities Program has an examination program that regulates the operations of these offices. The program conducts routine examinations of these office locations on a 5-year schedule through its staff as well as an independent contractor to ensure proper supervisory structures are in place and to prevent and detect sales practice violations. Additionally, the Department conducts for-cause examinations on an as-needed basis as part of its investigations program. The cost of the examinations is offset by reimbursements from the security companies.